

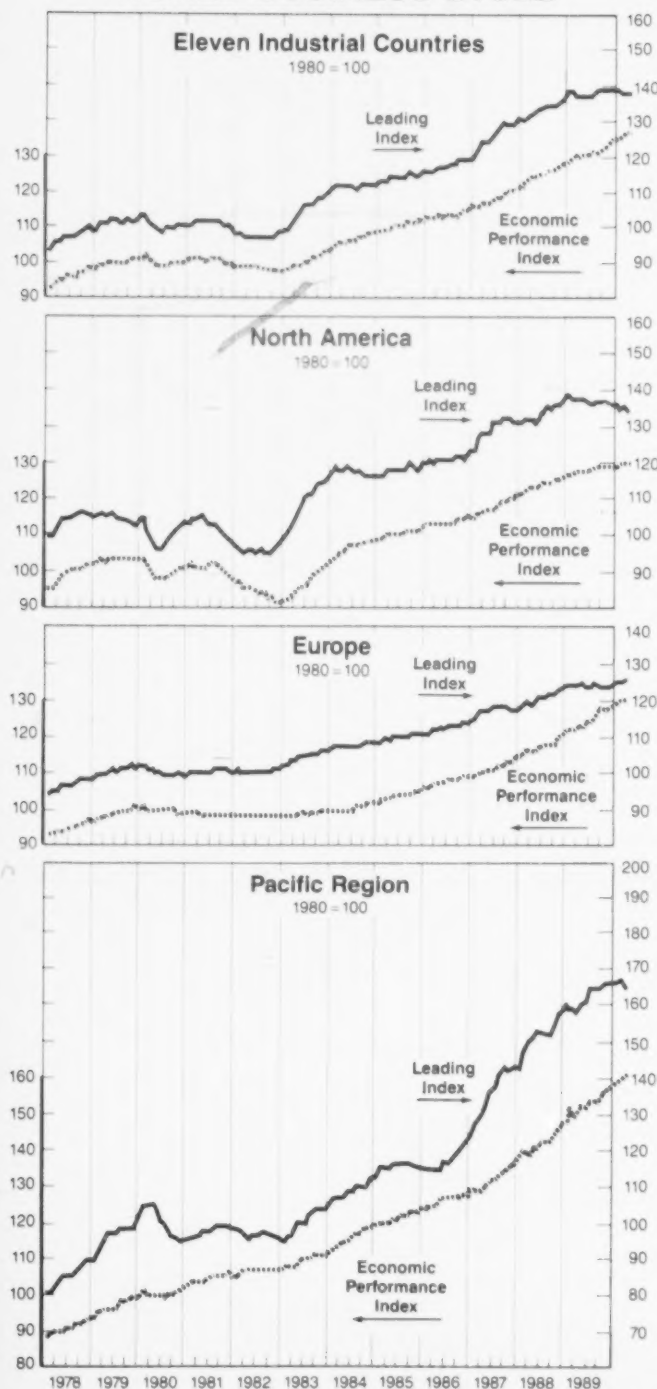


International Economic Scoreboard

A Quarterly Report from The Conference Board

Third Quarter 1990

WORLD BUSINESS CYCLE



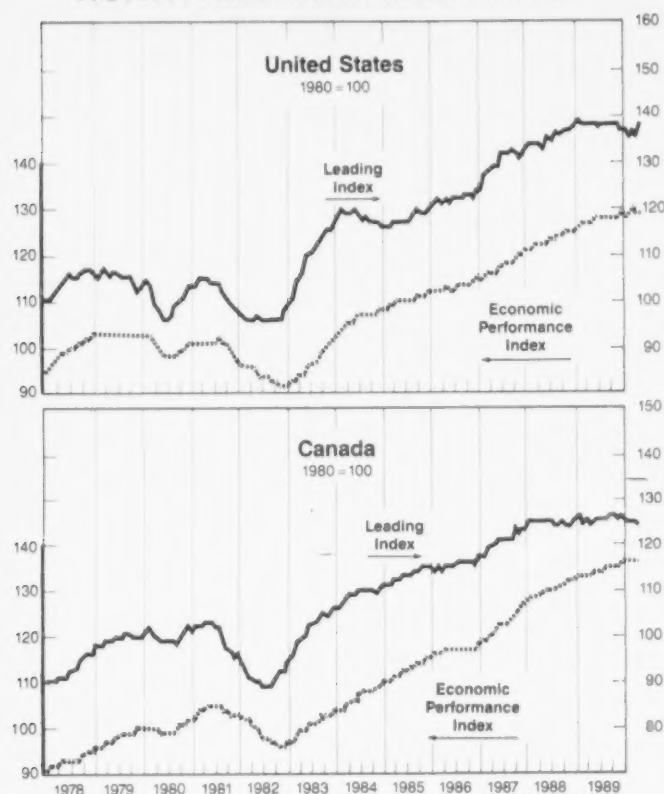
PERSISTENT SIGNS OF SLOW GROWTH

Although the world business cycle continues to rise at a steady but unspectacular 4 percent, the 11-country leading index is flat. This suggests slower economic growth in the second half of 1990. This conclusion is based on data available prior to the Middle-East crisis, which casts a further shadow over the outlook.

In one respect, this pattern is deadly dull, since we have been reporting it regularly since the end of last year. Further, the persistent expansion of economic activity, coupled in most countries with not-unsatisfactory levels of employment and inflation, makes it awkward to complain very loudly about the economic outlook. Nevertheless, the continuing lethargy in the leading index is a bit discouraging. In addition, the experimental "long-leading" indexes (discussed in the essay on pp. 5&6) provide another source of worry.

An important implication of this pattern is that the outlook for continued growth in U.S. exports has become less sanguine. The latest growth rate for the leading index that covers ten countries excluding the U.S. is 2 percent. A year ago this rate was 5 percent, but it has dropped fairly steadily since then, and has been 2 percent for the past four months. This index has been a rather good prognosticator of U.S. exports, since it reflects the growth in demand in other countries. Other factors, such as exchange rates, are important too, but the prospect of slower growth in demand adds a disquieting note to the U.S. trade picture for the period ahead.

NORTH AMERICAN COUNTRIES



BOREDOM REIGNS

The U.S. economic outlook is discouragingly dull. Both the performance index and the leading index have been flat for the better part of a year. If the unemployment rate had increased a half-point or so—as it could be expected to do under these circumstances—we'd all be debating how deep the recession was going to be. As it is, however, the signals of future economic activity—whether you watch the leading indicators, the econometric models, or any other type—are predominantly benign.

EQUALLY UNINSPIRING

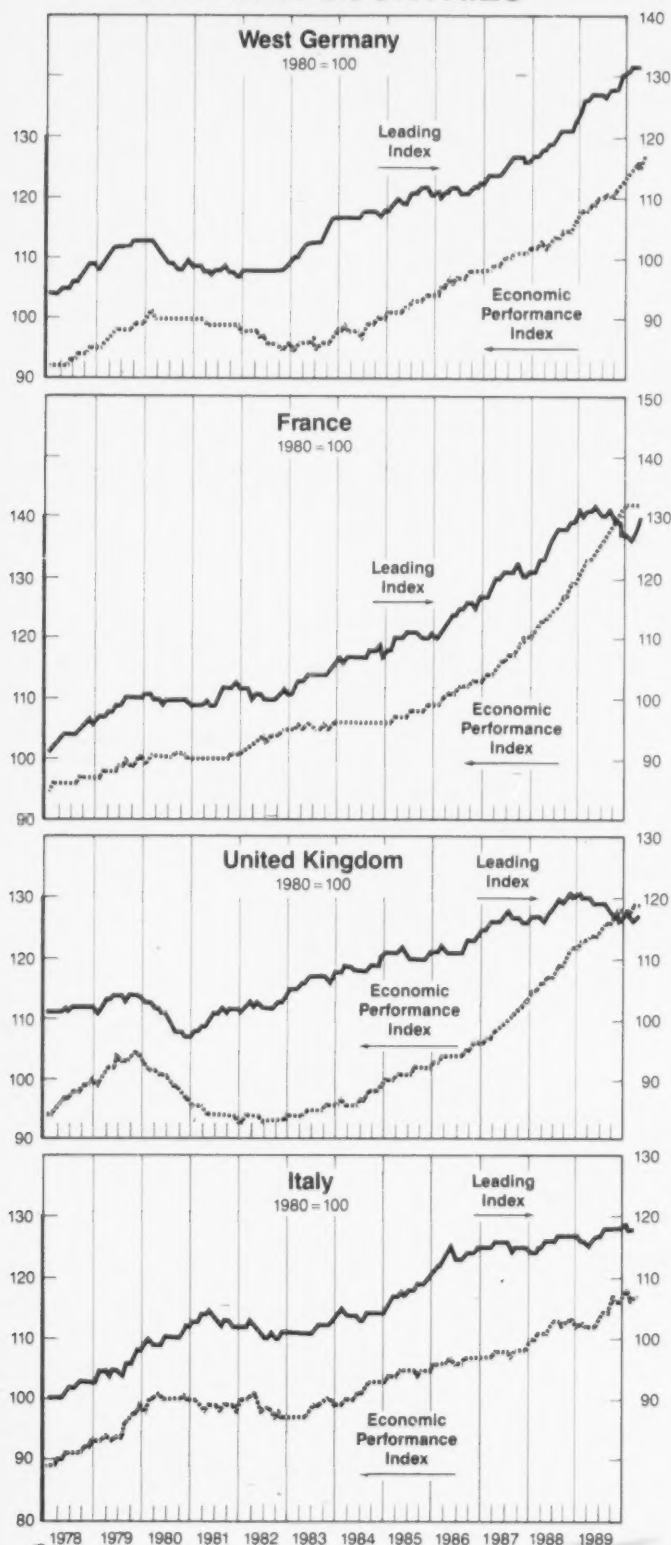
Both Canadian indexes are comparably flat; indeed they appear to be almost identical to those of their neighbor to the south. (This will annoy some Canadians, not because of the lethargic outlook, but because of the similarity to the U.S. Sorry about that!)

Summary Of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*			Current Reading on the Cycle	Latest Month Covered
		6 mos	3 mos.	Latest	6 mos.	3 mos.	Latest		
		ago	ago	month	ago	ago	month		
1976-86									
annual rates, percent									
Eleven countries	3	4	4	4	2	1	0	Expansion continuing, leaders weak	Apr.
Ten countries excl. U.S.	3	6	7	6	3	2	2	Expansion continuing	Apr.
North America (2)	3	2	1	1	1	-1	-3	Expansion continuing, leaders weak	Apr.
Europe (4)	2	6	7	6	1	1	2	Expansion continuing	Apr.
Pacific Region (5)	4	6	7	8	7	5	1	Expansion continuing, leaders weak	Apr.
United States	3	2	2	1	1	-3	1	Expansion continuing, leaders weak	May
Canada	3	2	2	2	0	-1	-1	Expansion continuing, leaders weak	Apr.
West Germany	2	5	8	8	4	5	5	Expansion continuing	May/Apr.
France	2	8	8	6	-1	-4	2	Expansion continuing	Apr./May
United Kingdom	2	5	5	5	-4	-1	-1	Expansion continuing, leaders weak	Apr.
Italy	2	5	6	6	2	1	1	Expansion resuming, leaders weak	Apr./Mar.
Japan	4	7	7	8	8	5	2	Expansion continuing	May
Australia	3	7	4	3	-2	-3	-2	Expansion continuing, leaders weak	May
Taiwan, R.O.C.	8	6	3	2	8	15	3	Expansion continuing	May
Korea, R.O.K.	7	5	15	7	3	10	6	Expansion continuing	May
New Zealand	2	-1	2	3	6	3	-2	Upturn resuming, leaders weak	Apr.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

EUROPEAN COUNTRIES



PRONOUNCED STRENGTH

The prospective unification of Germany lifted spirits nicely on both sides of the border, but how favorable the economic impact is going to be has been widely debated. The leading index for West Germany has weighed in strongly on the favorable side, as the work-week lengthened, investment-goods orders climbed, and most of the other leading indicators improved as well.

FURTHER EXPANSION

After a spell of weakness in late 1989 and early this year, the French leading index now shows improvement. Economic growth, which never faltered over the winter, is thus likely to continue, though probably at a slower pace.

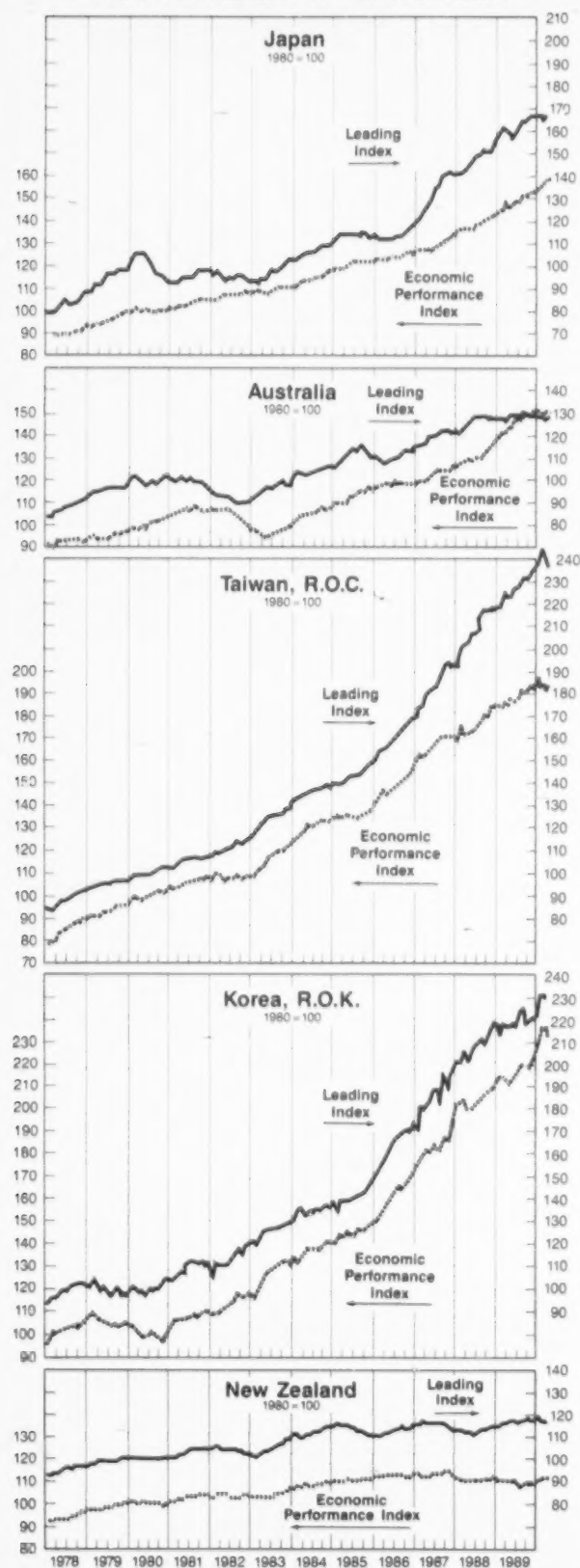
LEVITATION

In contrast to the continent, the persistent sag in the U.K. leading index tells us that prospects for continued economic expansion are not propitious. What is surprising about this, after 16 months of slow leak in the leaders, is that economic activity has continued to advance so vigorously.

DEJA VU

The Italian data (which this month are not as out-of-date as usual) are tracing a familiar pattern: The economy continues to expand nicely, but the slow growth in the leaders raises doubt that the business cycle will continue to do so well.

PACIFIC REGION COUNTRIES



MIXED PORTENTS

The Japanese leading index leveled off about six months ago, but the economy continues to expand smartly. The dominant source of weakness in the leaders was stock prices, which fell sharply from January through April. Since then the equity market has regained about a third of the lost ground but other components, such as business failures, have contributed to weakness in the leading index.

TOUCH OF HOPE

The Australian economy has been flirting boldly with recession for close to a year. The latest report, however, especially the data on private construction, took a bit of the darkness out of the outlook. The latest statistical snapshot is neither bright nor clear, but at least it's less worrisome than last time.

PRECIPITOUS DROP

The Taiwanese economy has been growing very rapidly since 1985, and through this past February gave every sign of continuing onward and upward. In March, April and May, however, the leading index dropped precipitously, with all six of the component series contributing importantly to the decline. In addition, the economic performance index has leveled off. Thus Taiwan appears to be joining the international slowdown.

STILL ADVANCING

The Korean indexes have been bouncing around quite a bit lately, but the trend for both the performance index and the leading index is still favorable.

MORE MUDDLING

The New Zealand economy has been muddling along for a couple of years now, with modest improvement showing up over the winter months. The leading index shows a weakening trend in recent months, however, dampening hopes that a cyclical expansion will gain some momentum.

LONG LEADING INDEXES—A NEW FORECASTING TOOL

One of the new developments in business-cycle analysis is the construction of a special "long-leading" index to supplement the standard leading indexes reported regularly in the *Scoreboard*. The main purpose, of course, is to get earlier warnings of business cycle downturns or upturns.

A related objective is to get advance warnings of major swings in stock prices, notably those associated with the business cycle. Although stock prices have been a leading cyclical indicator in nearly every country studied, in some cases for more than a century, the leads have usually been shorter than the criteria established for the long leaders.

In the United States, a long-leading index was constructed several years ago by the Columbia Business School's Center for International Business Cycle Research. Its components include four leading indicators, drawn from a list of fifteen leaders that since 1948 have had average leads of at least 12 months at business cycle peaks and 6 months at business cycle troughs. Most indicators have shorter leads than this. Since World War II, this long leading index has led, on average, by 14 months at cyclical peaks and 8 months at troughs. That's 4 or 5 months earlier than the indexes regularly reported in the *Scoreboard*, a very substantial improvement. There is, however, a risk with this new index of which we should be aware: Because it is constructed from only four component series and therefore is subject to more influence from a single source, it may prove to be more difficult to interpret than the regular leading indexes.

The four components of the U.S. long leading index are: bond prices, new housing permits, money supply (M2) adjusted for inflation, and an indicator of profit margins in manufacturing based on the ratio of selling prices to labor cost per unit of output. Each of these series has a bearing on the future course of economic activity by affecting decisions to spend or invest.

Similar long-leading indexes have now been calculated for Japan, West Germany, the United Kingdom and Australia. The same list of components, or close approximations to them, has been used for each of these countries, partly to make the indexes comparable and partly as a further test of the U.S. list.

Studies of the record of these long leading indexes are still underway, but the initial results are promising. The U.S. index, shown in the accompanying chart (next page), has proved capable of forecasting next year's growth in real GNP with an accuracy about equal to that of the consensus of forecasters. In August 1989 the index suggested that real GNP would grow by 2.6 percent between 1989 and 1990. At the moment, this projection seems somewhat optimistic, since the first half of 1990 was 1.3 percent above the first half of 1989.

What are long leaders saying now? The accompanying table shows the latest available rates of change in the long-leading indexes. In general these results suggest that the slowdown of the global business cycle will continue through the remainder of 1990 and into 1991. Japan's long leader was particularly weak, indeed very recession-like, mostly because of a sharp hike in interest rates, since reversed. The latest reading for May is 4 percent, reversing the dismal performance three months earlier. This bears close watching to see what it augurs for the leading index shown in the *Scoreboard*. The most recent U.K. rate of change is negative, but only modestly so, while those for the U.S., Australia and West Germany are a flat zero. All these rates are well below their levels of a year ago, and—except perhaps for Japan—point to slow growth and perhaps no growth in the period ahead.

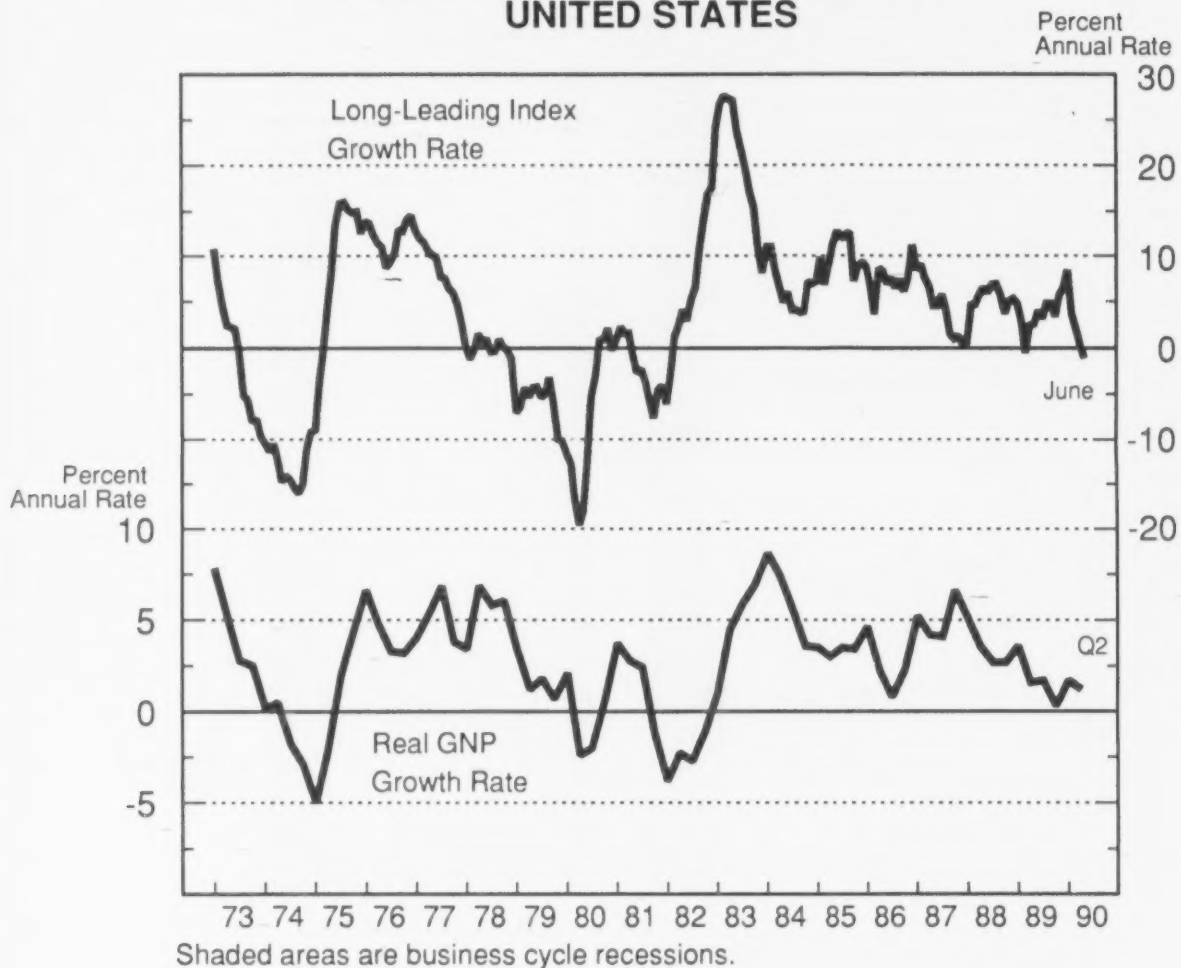
If policymakers need support for taking stimulative action, they will find some here.

LONG LEADING INDEX GROWTH RATES, FIVE INDUSTRIAL COUNTRIES

	Ten-Year Growth Rate	Long-Leading Indexes, Growth Rates*				Latest Month Covered
		12 mos ago	6 mos ago	3 mos ago	Latest Month	
	1976-86					
			(annual rates, percent)			
United States	3	5	9	4	0	June
Japan	4	6	-7	-6	4	May
West Germany	2	3	1	4	0	March
United Kingdom	2	1	-1	-1	-2	March
Australia	3	6	-3	-3	0	May

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

LONG-LEADING INDEX AND REAL GNP UNITED STATES



THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call “coincident” series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the

business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

The indexes are maintained by the Center for International Business Cycle Research at the Columbia Business School.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

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